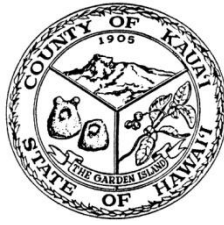


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**Mayor Carvalho's statement regarding fiscal year 2012 budget**  
**Thursday, June 9, 2011**

Today I have signed the budget for fiscal year 2012 that was transmitted to me by the Council on May 25.

This is the third time that, as Mayor, I have proposed a budget and then worked with the Council to come up with a final product we can all stand behind.

Of those three years, this has produced the most "spirited" discussions.

This year has also produced a budget that I cannot fully embrace.

That being said, I appreciate the efforts of the Council and the input from the public.

The dialogue has been important...and we have been listening.

As you know, I have the ability to veto the budget...or portions of the budget with which I do not agree.

I have been tempted to utilize this tool...however...in the end, I have signed the budget as is.

I'm addressing you at this time because I feel there are important messages to send...there are important facts that have been distorted or misread during this process.

It is my hope – however you feel about this budget – that we fully understand each other and the direction we will be taking in the coming year.

First, I'd like to start out with some clarifications of some financial information that I feel has not been presented properly or fully either on the Council floor or in the media.

Following those clarifications...I will address some specific portions of the budget with which I disagree...and explain my plan of action relative to those items.

So let's begin with budget growth...which I have heard and read a lot about in the past several weeks.

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Just as individuals experience in their own personal budgets...the County must deal with increased fixed costs from year to year. For us...the biggest fixed costs to deal with are:

- Personnel costs
- Energy and fuel costs

Between my first annual budget submittal and this budget submittal...that's **three** budget cycles...our personnel costs alone have increased 22 percent.

From fiscal year 2011 and fiscal year 2012 alone that increase in personnel costs is more than \$14 million.

Now, as a comparison...during that same period - the three years between March 2009 and now - the overall budget has grown only 4.4 percent...or an average of 1.5 percent a year.

Has our budget grown? Yes, obviously it has.

But it has also obviously taken sound fiscal management and SACRIFICE to manage such a small overall increase with such a large increase in fixed costs.

And even with that relatively small three-year increase, the following projects have been initiated and absorbed into our operating budget:

- Automated rubbish pickup – phase one; with phase two to follow this summer
- Curbside recycling pilot project
- A \$1 million investment in visitor industry marketing has resulted in more than \$46 million in economic activity on Kauai
- Establishment of park and ride sites throughout the island
- Expansion of bus service on weeknights and Sundays
- Live streaming of Council, Police Commission and Planning Commission meetings
- The establishment of our One-Stop permitting center for residential building permits
- The Important Ag Lands study is underway
- Resource Recovery Park and Landfill siting studies are underway
- New affordable housing projects are open at Kalepa Village, Waipouli and Kaua'i Lagoons. Others are following at 'Ele'ele Luna and Paanau in Kōloa.
- The photovoltaic retrofit at the Līhu'e Civic Center is complete...and projects at Kaiakea Fire Station and the Waimea Wastewater Treatment Plant are underway
- We acquired 75-acres of land in 'Ele'ele from A&B for affordable housing, and master planning is underway
- We acquired the Hodge parcel at Hanalei Beach Park
- The Kīlauea Ag Park environmental assessment is nearly complete with engineering and design to follow this year

- We have acquired a rescue helicopter for the Fire Department
- The EnhanceFitness program for seniors has been expanded throughout the island
- We have launched the Connect CTY emergency notification system

All of that – and more - with only a 4.4 percent increase over a three year period.

Also, related to budget growth is the conversation about the number of “**new**” positions that have been added.

Have there been new positions added? Well, more accurately, existing vacant positions have been filled. Of particular interest to the Council and others are the positions that have been added to effectuate:

- A more productive, responsive and efficient Mayor’s Office
- Reducing costly claims and lost work time through more focused Risk Management efforts
- More consistent and persistent outreach and planning for Civil Defense matters
- Planning for affordable housing projects – especially our ambitious 75-acre “green” affordable housing project in 'Ele'ele
- Creation of an Environmental Services division in Public Works—to provide overall coordination of operations in Solid Waste and Wastewater programs that are critical to the health and safety of all people on Kauai

I discussed these changes at my initial budget presentation on April 8, and have been explaining the rationale behind the positions at numerous community presentations for my Holo Holo 2020 plan.

The short answer here is that I believe more support in these areas is critical to our operations from a health and safety standpoint and a fiscal management standpoint. As Mayor, I have been elected to make these decisions for the benefit of the people I serve and I feel strongly that these were good and sound decisions.

I’m willing to stand by them and be held accountable for the results. Period.

And while we’re talking about positions...it is actually fairly common practice throughout the County to occasionally redefine or upgrade a position when the needs of that specific department or agency change. Even Council Services has done this more than once in the past couple of years. So to paint these recent actions as “extraordinary” and “unusual” is not accurate.

Another discussion point on budget growth has been the creation of a “reserve” fund and policy.

I have heard and read criticism about the “**growth**” in the budget between the March 15 and the May 6 submittals.

The headline in The Garden Island read: ***FY12 supplemental budget \$21 million higher***

Technically that was true...but it was not an “apples to apples” comparison. And many people failed to read past the headline to understand the REAL story.

My supplemental budget submittal actually **CUT** \$3.3 million from operating expenses that were proposed on March 15.

The difference was the addition of a **NEW** item in the budget – our reserve line-item. The change was basically in renaming our un-appropriated surplus and placing greater parameters around its use.

The overall point I am making is that we are not spending significantly more money now than we were in the past.

And we are also proposing to manage our unappropriated funds in a more restrictive and transparent way via the reserve fund.

By the way, the establishment of the reserve is already producing benefits for the residents of Kaua'i. Last week, members of our team, along with Council Chair Furfaro, traveled to San Francisco to make presentation to the three major bond rating agencies: Moody's, Standard and Poors, and Fitch.

Our bond ratings are important: when they are favorable...they save us millions of dollars in debt service on our capital projects. Our ratings currently are high...and maintaining them in the current economic climate is going to be difficult. However, ALL of the rating agencies were impressed with the move to establish the reserve...and gave indication that this will be reflected in the ratings we are expecting to receive next week.

Now, I would like to move on to specific areas of the budget that have been passed by the Council with which I disagree.

- Several projects have been added by the Council to the Office of Economic Development – an office which is already overflowing with high priority projects that staff is working hard to complete. The Council provided funding - but not adequate human resources - to complete those new tasks. I'm referring specifically to:
  - ✓ Our CEDS – or Comprehensive Economic Development Study. During our budget discussions in May, the Council asked that we undertake six separate studies for growth in various industries. In my supplemental budget, I proposed to complete two of those studies next year because I felt with our current manpower that's all we could reasonably complete. The Council decided to add the other four back in

anyway – to the tune of \$274,000 – without any additional manpower. At this time we will be undertaking only those studies we feel we can reasonably manage and complete during FY12: and those are for the agriculture and renewable energy sectors.

- ✓ Conflict Resolution Pilot Program Fund for Energy Projects: This was added by the Council without any discussion with the Administration. I know there is concern about the public process currently taking place regarding KIUC's proposed hydro project. I have spoken directly with David Bissell of KIUC and he has assured me that the communication effort and dialogue among the stakeholders will be improved. And I know they have already taken first steps in that effort. I am not convinced this funding is needed, and the Council has failed to provide additional staffing resources to manage the project. So, if and how it will be spent is a question for me.
- The Council added \$230,000 for the Kapaia Swinging Bridge project, even though I have clearly stated that I have no intention of pursuing this project with County funds at this time...given its estimated cost of between \$2 and \$4 million and the relative benefits it will provide to the people of Kauai. That position has not changed. However, as I have stated before, I would be open to new information, including other sources of funding that might be identified and secured. The community members dedicated to this project are to be commended, and I remain interested in pursuing a stewardship agreement for the bridge with a group that can demonstrate that it could be an effective "champion" for this project. We are moving forward successfully in Poipu with just such an agreement for the Kaneiolouma Heiau...and that effort could serve as a model for those interested in the preservation of the Kapaia bridge.
- I very much disagree with the Council's move to eliminate funding to continue the curbside recycling program that was implemented earlier this year. I feel that \$175,000 is well worth the investment in the grooming of the Līhu'e-Puhi communities to be the model once the program fully rolls out. Say what you want about the need for a MRF...I still believe the program should continue. And even if we didn't continue with the curbside recycling...these monies could have been used for greenwaste curbside pickup...for which no MRF is needed. Either way I feel that eliminating the funding was the WRONG message for the Council to send, and it does not deter our commitment to increasing our diversion efforts aggressively in the coming fiscal year.
- I am also extremely disappointed that funding for the environmental studies for the "green" affordable housing project in 'Ele'ele was removed. Our west side communities need affordable housing. This project is envisioned to be multi-generational...and will serve a variety of socio-economic groups. It will include "Complete Streets" and "Safe Routes to School" elements...recreational areas...community gardens...connectivity to the surrounding community...energy efficiency...in short – EVERYTHING GREEN. It will be a model for other developments, and you will never convince me that there isn't a need for affordable

condos, homes and rentals for our kupuna, our working people, and our young people on the west side. A project of this size will take time and we need to continue to move forward. As part of our master planning process, we will soon be holding public meetings on the west side for this project and I'm sure the community will send that message loud and clear. I have every confidence that this funding will be restored and that we will be able to move forward on this long-term project without delay.

In conclusion, I would like to restate my main points:

- ✓ Contrary to much of the discussion about this budget...I feel we have been fiscally conservative, responsible and responsive to the needs of the community over the past three years
- ✓ With minimal growth in operating expenses over the past three years...we have completed and integrated dozens of worthy projects and new services since fiscal year 10.
- ✓ Any positions that have been added have been done so to address areas of critical need and I am confident we will show tangible benefits from the work being done by these individuals in the months to come.
- ✓ While I acknowledge the Council's choice to include new funding in their final budget...as Mayor, I reserve the right to act or not act on various projects which I don't feel are a priority, and/or we don't have adequate resources to complete or sustain.
- ✓ There are important priorities...such as diversion and affordable housing...that we will pursue despite the Council's failure to fund.

We look forward to a new fiscal year with great hope and enthusiasm for great things to come for the island of Kaua'i.

Mahalo and Aloha!

*Mayor Bernard P. Carvalho, Jr.*